

Irby/Finance Committee Meeting Monday, February 22, 2016

The Irby/Finance Committee met on February 22, 2016 at 2:15 PM at the Old U.S. Mint.

Members present: Robert A. Barnett; Madlyn B. Bagneris; Michael M. Davis; Rosemary Upshaw Ewing; Janet V. Haedicke, Ph.D.; Kevin Kelly; Lawrence N. Powell, Ph.D.; Philip Woollam; and Diane K. Zink

DCRT Staff present: Rennie Buras, DCRT Deputy Secretary; Julia George Moore, DCRT Counsel, and Billy Nungesser, Lieutenant Governor

Others present: Mark A Tullos, Jr.; Robert E. Wheat

A quorum was present.

1. Call to Order

Mr. R. Barnett called the meeting to order at 2:15 PM.

2. Motion to Adopt the Agenda

Ms. Bagneris MOVED, seconded by Ms. Ewing, to accept the agenda. There was no public comment. **Unanimously approved.**

3. Approval of Minutes

The minutes from the December 14, 2015 meeting were distributed in advance for the Committee's review. Dr. Powell had one change. Dr. Powell was the dissenting vote on the motion to approve renewal of *Ma Sherie Amour's* commercial lease at 517 St. Ann Street. Subject to that change, Ms. Zink MOVED, seconded by Dr. Haedicke, to approve the December 14, 2015 Irby/Finance Committee minutes. There was no public comment. **Unanimously approved.**

4. Financials

The financials and balance sheet as of 12/31/15 were distributed for the Committee's review prior to the meeting. There was no discussion nor motion.

5. Lower Pontalba rent study

Before discussing the findings of the Rent Study, Mr. Tullos was called upon by Mr. Barnett to provide some background of the Study and development of the scope. Mr. Tullos gave a detailed Powerpoint presentation, showing the schedule of renovations planned for the Lower Pontalba apartments. He also displayed a page from the Work Order summary, which showed the large number of Work Order requests and how many are completed. The members briefly discussed the process of identifying issues to be fixed, submission of issues by the tenants, logging of issues and final resolution.

Mr. Tullos then discussed the re-roofing project. It is now completed and painting the ironwork and balcony ceilings, as well as painting the fascia, continues. In addition, closing of the back hallways and installation of central air and heat on the few remaining apartments is on schedule to be completed in 2016-17.

Mr. Tullos and Mr. Barnett called upon Ms. Hammatt to speak about the 1850 House museum restoration. Ms. Hammatt said all furniture has been cleaned and all rooms have been scraped and painted. The next step is to re-finish the stairs and put a carpet runner on them. Staff can then start moving furniture and artifacts back in. There is also a new system for re-circulating the air.

Mr. Tullos said the museum has a book called "Historic Structure Report, 1850 House Museum, Lower Pontalba building," which details historical colors that were used in the 1850s. Staff is using it as a guide.

Mr. Guice asked where the profit goes from the Irby fund. Mr. Tullos said it goes into a savings account and staggered CDs in order to build up the fund.

The Rent Study was then discussed. Mr. Tullos said the Scope of Work for the Rent Study was as follows:

- Research market rates for rental apartments in the entire French Quarter
- Provide a general market rate range per square foot for French Quarter apartments
- Consider the historic nature and location of the apartments
- Inspect representative sample apartments in the Lower Pontalba building
- Assess the feasibility of charging half the square footage rate for balcony space associated with the units in the Lower Pontalba building

Mr. Tullos emphasized that this Rent Study is NOT an appraisal of conditions. He stated that this is a rental assessment of market rental rates in the French Quarter. It was not an appraisal.

Mr. G. Geoffrey Lutz was introduced and asked for his background and qualifications. Mr. Lutz is a Real Estate Appraiser and developer. In addition, Mr. Lutz is an Adjunct Professor of real estate, management and small business at Tulane University. His complete list of accomplishments was attached to his report.

Mr. Lutz emphasized that there is a difference between a Rent Study and an Appraisal. The Rent Study for which he was hired analyzed the overall market rent range for the French Quarter. Mr. Lutz analyzed 145 recent rentals over the past 12 months. And he found a median rental rate of \$2.14/SF. However, he noted that other rental properties don't charge tenants a Common Area Maintenance fee (CAM), so he adjusted the rate to a median of \$2.00/SF. In addition, since there is no parking provided, a downward adjustment was made. Mr. Lutz then looked at the difference between the 2nd floor and 3rd floor apartments. Since there are no elevators and walking up many stairs with ones groceries to get to the 3rd floor can be cumbersome, Mr. Lutz felt \$1.87/SF was a fair median rent for the 3rd floor apartments.

Mr. Lutz was asked to check into the feasibility of charging a rate for balcony space. He said that he compared 39 rentals with balconies. He said it was hard to obtain an assessment of balconies based

on their size. However, he noted that the 2nd floor balconies of the Lower Pontalba apartments are very deep and also covered. Mr. Lutz discovered that balconies are priced as a line item at an average of \$400 for each balcony. Due to the depth and coverage of the 2nd floor balconies, Mr. Lutz felt those are worth more than the ones on the 3rd floor. He then assessed the depth and size of the 3rd floor balconies and came up with an estimate of \$250 for the 3rd floor balconies. Lastly, both the 2nd floor and 3rd floor balconies are much bigger (twice as large) as the rest of the balconies. Therefore, Mr. Lutz suggested doubling the corner apartments for the 2nd floor to \$800 per month per balcony and for the 3rd floor doubling to \$500 per month per balcony.

Regarding location, Mr. Lutz said that he considered the mean in the French Quarter neighborhood. He found that the location falls within the upper half of French Quarter locations. Taking into consideration that the waiting list is 145-150 people, he feels the Lower Pontalba is in high demand.

Mr. Lutz said there is a history in the French Quarter of having somewhat small units at an average size is 800 square feet. The units in the Lower Pontalba are considerably above that.

Regarding the CAM, he stated that a tenant often gets charged for repairs, insurance, taxes, and garbage pick-up. Some of those expenses do not apply here. In the private sector, those charges are included in the rent. Since these apartments are state owned, that is not the case. If the LSM is going to charge a CAM, he suggested LSM deduct \$.19 per square foot.

Mr. Barnett had collected Public Comment cards and because the suggested time limit of 20 minutes, he asked if each tenant would please only speak for 2 minutes to allow time for all 11 comments. He also suggested, because of time constraints, that tenants focus on new issues and not re-hash what has been discussed at prior Irby meetings.

(1) Haydee Mackey - 531 St. Ann Street, 3rd floor

Ms. Mackey said she is disappointed in the Rent Study and feels it should have included an assessment of each individual unit. She stated that each unit is ‘completely different’ and each should be ‘treated differently’.

(2) Cheryl Canavier - 810 Chartres Street, 3rd floor

Ms. Canavier said she feels some of the materials used in the apartments are cheap, like the linoleum floors in her kitchen and bathrooms. In addition, she says that her unit still has plaster peeling. She is still waiting on the remaining half of the plaster work to be done.

(3) Kevin Mackey – 531 St. Ann Street, 3rd floor

Mr. Mackey deferred to his wife’s comments.

(4) Andy Rinker, representing Steve and Cindy Hogan – 531 St. Ann Street, 2nd floor

Mr. Rinker thanked the Committee and staff for taking Mr. Lutz’ suggestion about incorporating the CAM (common area maintenance fee) into the base rents. He would like the Committee to consider: charging rents more in line with the Upper Pontalba apartments, which he feels are most comparable to the Lower Pontalba. Mr. Rinker noted that the Upper Pontalba has 24/7 security. Also, he pointed out that appliances and HVAC come with the apartments at the Upper Pontalba.

Mr. Rinker stated that the Hogans put in their own central air and that they maintain it.

He then stated that the conditions of the apartments should be considered by LSM.

Mr. Rinker said he hopes the Committee could meet with the LSM staff every month to discuss issues which need priority responses.

(5) J. R. Fields – 535 St. Ann Street, 2nd floor

Mr. Fields had asked to speak in opposition to the huge rent increases and concern about the addition of square footage using balcony measurements. He questioned how porches could be factored in. He stated that there were too many variables not considered in the Study. He said the City's study should be considered.

(6) Gary Boue - 535 St. Ann Street, 2nd floor

Gary's son John spoke to the Committee. He reiterated Mr. Rinker's suggestion to follow the Upper Pontalba procedures and rates.

(7) Louis Sahuc - 515 St. Ann Street, 2nd floor

Mr. James Airey spoke on behalf of Mr. Sahuc. Mr. Airey said this apartment has been Mr. Sahuc's home for 27 years. He does not mind a rent increase based on fair market value. However, LSM has not provided him with central a/c, a stove, or a refrigerator. He complained about the conditions in his unit. Mr. Barnett asked him to supply LSM with a list of complaints for consideration. He would also like to see more full time residents in the Lower Pontalba. He stated that this study is not based on a fair market value. The study only 'cherry-picked' none apartments and failed to recognize the lack of appliances and air conditioning units. Mr. Airey said that this apartment was nothing more than "a box" and "too much money."

(8) Charles Cole - 515 St. Ann Street, 3rd floor

Mr. Cole is a retired real estate broker and he is glad the CAM is included in the proposed rents, but he would like any balcony charges also rolled into the lump sum rent. He questioned Dr. Lutz about the percentage of units used by him actually listed with MLS. He questioned the accuracy of CAM charges. He questioned a fee assessment for balconies. Mr. Barnett called upon Dr. Lutz to address the questions. He explained away the concerns and accuracy of his Study. He detailed how the gross amount rate can include CAM charges. Mr. Cole then stated that there were at least 19 past or current issues with his unit and discussed a request for an abatement. Mr. Barnett referred him to LSM after the meeting.

There was a brief discussion of the status and use of surplus Irby funds either being turned into the State or used for restoration and repairs.

(9) Ben Skillman – 519 St. Ann Street, 2nd floor

Mr. Skillman discussed his prior request for an abatement and subsequent award of one month's rent. He then stated that LSM maintenance staff worked on his apartment for months, but he feels the materials used were substandard and don't even match. He then stated that there was even a leak that LSM had not fixed. Mr. Barnett referred him to LSM after the meeting.

(10) Pat Holden – 511 St. Ann, 2nd Floor

Mrs. Holden deferred to her husband.

(11) Jack Holden - 511 St. Ann Street, 2nd floor

Dr. Holden thanked Ms. Washington for assisting him in getting his repairs taken care of so quickly and efficiently. He has never requested many repairs. They love their apartment the way it is. He did comment, though, that the rent increases were of concern and cost to update units.

(12) Hugh Lambert - 519 St. Ann Street, 2nd floor

Mr. Lambert echoed concerns from Mr. Sahuc. He stated that Irby is 'used as an excuse' at times and then 'not used' when it comes to finances. He said that funds are bled off from Irby. He said the materials used to repair and remodel are "cheap" and "degrade the property". He used, as an example, the closure of the hallways as "cheap". He stated that the nature of the apartments is "eclectic" and "should be kept that way". He asked Dr. Lutz if he was ever aware whether rent had been increased without fixing up or remodeling a unit. Mr. Lutz was called upon and stated as the owner of apartments in the French Quarter that 'yes' it is a common practice that rental rates can be increased without renovation. Mr. Lambert questioned not just "the scope of the LSM engagement letter" but stated that it "pre-concluded to justify the increase."

Mr. Barnett asked if any tenant had not been recognized.

Mr. Barnett then called upon Irby members for comments and input.

Mr. Guice, an LSM board member, interjected that he recommended a flat 20% across-the-board increase and to ignore the Study.

Mr. Barnett called upon Irby members and staff for input.

Mrs. Ewing said the LSM now has two rent studies which reinforce each other. She feels the Committee is challenged with a fiduciary responsibility and must consider the rent increases.

Mr. Tullos said the rents have not increased in five (5) years. He stated that staff recommends incorporating CAM fees into the base rent. He also suggested that 'rolling balcony fees' into the base rent was approved by staff.

Mr. M. Davis said he would like to see increase in security at the Lower Pontalba building. He inquired about the square footage recalculations. Mr. Davis said he has heard Mr. Robby Cangelosi of Koch and Wilson has a contract to assess the square footage of the residential units and provide architectural drawings. Mr. Wheat said the current drawings that LSM staff have were done many years ago and will be updated in due course, but that LSM is contracting with Mr. Cangelosi for several purposes, such as up-to-date architectural drawings and use of new drawings in a pending lawsuit concerning handicap-access issues.

Mr. Kelly said he was in the Rent Study group. He concurs that this was not an appraisal, but a rent study and they are two different things. He stressed that it was a look at rent in the French Quarter without regard to an apartment's condition.

Mr. Woollam noted that the Committee and staff's position is very difficult because they have to maintain the building and support the State Museum. With increased budget cuts looming, staff needs a reserve and the Committee is under obligations to be the financial stewards of Irby. He said that the allocation of funds is needed to support LSM. He suggested that it is not possible to 'guarantee equal assessment' of rental fees because each apartment is different.

Ms. Zink said she was on the Board when rents were increased the last time and, at that time, each apartment was visited and the condition of the apartments, as well as tenant-funded improvements, were taken into consideration. A provision was put in the lease that after three years, tenant-funded improvements would not be taken into consideration. Ms. Zink still finds it problematic that LSM is suggesting a flat rate per square foot. She questioned whether the increase was "fair". She reminded Irby members that, after three years, any improvements made by a tenant revert to the State. She concluded her remarks by stating that LSM cannot have a base rent because each apartment is different.

Mr. M. Davis stated that it was unfair to assess Mr. Sahuc more than 100% increase and that it was 'unfair'.

Ms. Bagneris said the Committee has gone over and over this issue and she made a MOTION to terminate the discussion by calling the question. **Five members voted in favor of terminating the discussion, with four members voting to continue the discussion. There was no public comment. MOTION PASSED.**

Mr. Kelly MOVED to accept the Rent Study by Mr. Geoffrey Lutz. Seconded by Ms. Ewing. Staff also recommended accepting the Rent Study. Mr. Lambert opposed the adoption of the Study for all the reasons previously discussed. Mr. Cole echoed Mr. Lambert. There was no further public comment. **MOTION PASSED.**

Mr. Kelly pointed out to the Committee that many of the units were found to have incorrect square footages and that this fact partially explains the increases in rents.

Dr. Powell also questioned the changes in square footage measurements.

Ms. Zink expressed concern about implementing changes not allowed by the Lease. She referred to page 18.

Mrs. Ewing said that it was time to increase rents.

Mr. M. Davis said if the new rental rates go into effect, then he suggested all residential units be brought up to a higher standard as soon as possible.

Mr. Kelly MOVED to implement the LSM staff recommendations for increased rent based on the study by Mr. Lutz. These rents would be effective April 1, 2016 and that implementation of the new rents would NOT be phased in. Ms. Ewing seconded the motion. Ms. Zink asked if staff can bring the below average apartments up to par within the next year. Staff confirmed that would happen. Mr. Barnett asked if there was any public comment. Mr. Rinker suggested the rents be phased in as a

gesture of good will. **Six members approved the motion to accept the Rent Study and implement the new rental rates effective April 1, 2016. Three members opposed the motion. The motion passed.**

The meeting adjourned at 4:20 PM.